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ABSTRACT

This paper describes funding mechanisms used in six states to implement early intervention services under Public Law 99-457, Part H, of the Education of the Handicapped Act Amendments (1986). An introduction reviews surveys of state progress in implementing the law's financial provisions. The six case studies present examples of successful implementation practices and are based on site visits, phone interviews, and examination of state documents. A comparison is made of use of six funding sources (e.g., Medicaid and private insurance) and the reliance, by most states, on only one or two funding sources is noted. The variety of funding approaches used are briefly described and include: unit rate financing; contracting for services; state core financing; local funding initiatives; formal and informal interagency agreements; and local/state coordination. Three recommendations are made: (1) states should concentrate financing efforts on a small number of sources; (2) state government sources of funding must be accessed to develop an adequate financing plan; and (3) states must invest substantial resources in the form of staff commitment to develop a successful financing plan for Part H services. Includes 4 references. (DB)

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Carolina Institute for Child and Family Policy

STATE FINANCING OF SERVICES UNDER P.L. 99-457, PART H

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UNDER P.L. 99-457, PART H

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FOREWORD

This contribution to the Carolina Policy Studies Program (CPSP) series of reports on the implementation of Part H of P.L. 99-457 is comprised of three independent papers on financing services. These papers are aimed primarily at state level administrators and are intended to present public policy perspectives on the complex task of financing services for infants and toddlers with handicaps and their families. The papers were originally prepared for a small policy conference held in Chapel Hill, N.C., to explore major financing issues to guide our future work on implementation of the law, and have since been substantially revised and updated for this report.

This paper, **State Financing of Services Under P.L. 99-457, Part H**, was written by Richard Clifford, Associate Director of CPSP, and is the initial report of the CPSP case study of six states' efforts to implement the financial provisions of the law. It describes the sources and funding mechanisms used in the six states, and makes recommendations regarding state response to the requirements of Part H. It should be noted that the other two papers were prepared because of the authors' extensive experience in particular aspects of financing services, and are not related to the case studies reported in the **State Financing** paper.

The second paper, **The Massachusetts Experience with Medicaid Support of Early Intervention Services**, was written by Karl Kastorf, Part H Coordinator in Massachusetts. As indicated by the title, the paper provides an overview of how one state has successfully integrated use of the federal Medicaid program into a plan for financing Part H services on a statewide basis. Many states have found it difficult to maximize use of this potentially large and important source of federal and state financial support for Part H services. It is hoped that the Massachusetts experience will be helpful to other states as they develop and refine their own strategies.

The third paper, **Use of Parental Fees for P.L. 99-457, Part H**, was prepared by Peter Van Dyck, M.P.H., Director of the Division of Family Health Services in the Utah Department of Health. He has had extensive experience in addressing issues related to financing services. This paper focuses primarily on use of parental fees as a source of funding for Part H services. It is impossible to completely separate parental payment for services from the use of private insurance. This paper provides meaningful insights into this important topic.

We greatly appreciate the time and expertise shared with us by the many participating staff members in the six case study states. Their willingness to spend substantial amounts of time with us, both personally and in gathering reports, memoranda and other documents to enable us to conduct the case studies, has been invaluable. We have come to respect them for their work on a tremendously difficult task. As you will see from this paper, we have questions about the possibility of truly fulfilling the intent of the financing provisions of the law. If it is possible, it will only be because of the dedicated work of the Part H Coordinators and their colleagues across the country.

Two colleagues here at CPSP have contributed substantially to this paper on state financing of services. Carolyn Stuart conducted two of the six original finance case study site visits and assisted in the preparation of all of the first year site visit reports. Kathleen Bernier had major responsibility for editing the paper for inclusion in this series. Their work is greatly appreciated.

Richard M. Clifford
March, 1991

INTRODUCTION

The Amendments to the Individuals with Disabilities Education Act (IDEA, formerly the Education of the Handicapped Act) of 1986 -- P.L. 99-457 -- established as the policy of the United States the provision of assistance to states for the development and implementation of a statewide, comprehensive, coordinated, multidisciplinary, interagency program of early intervention services for infants and toddlers with disabilities and their families (Sec. 671). Payment for these services is to be made from federal, state, local, and private sources (including public and private insurance coverage) at no cost to families, except where federal or state law provides for a system of payments by families, including a schedule of sliding fees (Sec. 671 and 672). Funds were provided under Part H of the legislation to develop and implement the system of services, facilitate the coordination of payment of services, and enhance, expand, and improve the states' capacity to serve eligible children and their families.

In a survey conducted in early 1988 (Gallagher, Harbin, Thomas, Wenger, & Clifford, 1988), Part H Coordinators were asked to identify the sources of funds being utilized to pay for services called for in the statute. It was found that a wide variety of sources were being used even in the early phases of implementation. On average, states reported using over eleven different sources of financing, with the range of sources used being four to fifteen. Health related sources of financing (e.g., Medicaid, private health insurance, state health funds) appeared to be the most widely used type of resource. Education funds were used somewhat less frequently.

Efforts to coordinate the use of these different sources had also begun. Two-thirds of the states indicated some level of financial coordination. Those states reported attempts to coordinate an average of five sources, with a range of two to fifteen sources being coordinated in the states which were able to provide information. But, as the responses to this survey and a similar survey, conducted by the National Association of State Directors of Special Education (Walsh & Campbell, 1988) to investigate the use of Part H funds, were examined more closely, it became evident that a more detailed investigation of state activities with regard to financing services was needed to help guide future policy decisions at both the state and federal levels.

The Carolina Policy Studies Program (CPSP) has since initiated more comprehensive surveys of state progress which have revealed that states are slow in implementing the major financial provisions of the law (Harbin, Gallagher, & Lillie, 1989; Harbin, Gallagher, Lillie, & Eckland, 1990). The results of the first survey indicated that, of the fourteen components required under Part H, states had made the least progress in developing, approving, and implementing the requirement to assign financial responsibility for services. In addition, little progress was evident in insuring timely reimbursements. Establishment of interagency agreements -- often the mechanism for formalizing financial plans -- was also rated among the lowest in terms of implementation (Harbin, Gallagher, & Lillie, 1989). Development of procedures for contracting services was the one financial area in which substantial progress was evident. A second CPSP survey revealed similar patterns still existing one year later (Harbin, Gallagher, Lillie, & Eckland, 1990).

CASE STUDIES

In addition to the 50-state surveys of progress, case studies of six states are being conducted to understand in more detail the processes involved in accessing and coordinating the various financial resources available to states to provide services. Case studies of other aspects of implementation of the law, including examinations of interagency coordination and family issues, are being conducted concurrently. The six states in the case study sample were chosen for a variety of reasons. First, it was important to look at successful practices. Therefore, as a whole, the six states are more advanced in their implementation of the law (including the financial aspects) than the typical state, although some variation in stage of implementation has been maintained. Second, wide variation in the level of states' wealth, geographic location, size, structure for provision of services, and other demographic characteristics was sought. Such variation was important in order that the financing plans across the states, for example, might be as different as possible and not restricted by, nor dependent on, a narrow set of state demographic characteristics.

Protocols were developed for a series of on-site interviews with agency staff members in the lead agency, other state agencies serving children and families, the Governor's office, the legislature, and local agencies. Prior to the site visits, a variety of documents from each state was collected and examined. CPSP staff members then spent three days in each of the six states, in late 1988 and the first half of 1989, conducting the interviews and gathering additional materials. After completion of the interviews, further information was collected via follow-up phone calls and mail. Detailed written reports to each of the

states to verify interpretations of the information received were then finalized.

This report summarizes major conclusions regarding financing of services under P.L. 99-457, Part H, based on site visits, phone interviews, and examination of documents from the six states. It should be emphasized that the findings in this report were as of 1989, and that substantial change has occurred since then in many of the states. The experiences of the states and trends in financing noted, however, continue to provide valuable lessons as we seek to improve the methods for financing services for the Part H population.

SOURCES OF FINANCING

Table 1 displays information about the six case study states' use of the major sources of funding. It should be noted that, in general, state agency personnel did not have detailed information on exact expenditures for Part H services. Several factors contributed to this lack of specific information. The data were gathered in the early stages of implementing Part H of P.L. 99-457. The reporting systems for the many and varied potential sources for funding rarely permitted easy access to information on expenditures for children under three years of age. States were still struggling with the definitions of eligibility for Part H. Only about 15 percent of the states in the U.S. (Harbin, Gallagher, & Lillie, 1989), and none of the six case study states, had fully developed and approved their definitions at the time of data collection.

The information in Table 1 was compiled by comparing the various perspectives of the most knowledgeable personnel in each state, collected through an extensive series of interviews, and by reviewing

Table 1. States' Use of Funding Sources

STATES / SOURCES	A	B	C	D	E	F
Medicaid	MINOR	MINOR	MAJOR	MODERATE	MAJOR	MINOR
State or Interagency Health*	MAJOR	MODERATE	MAJOR	MODERATE	MAJOR	MAJOR
Chapter 1 (Handicapped)	MINOR	MINOR	MINOR	MODERATE	MAJOR	MINOR
State Education	MINOR	MINOR	MINOR	MAJOR	MINOR	MINOR
Private Insurance	MINOR	MINOR	MODERATE	MODERATE	MINOR	MINOR
Parent Fees	MINOR	MINOR	MODERATE	MINOR	MINOR	MINOR
Local	MINOR	MINOR	MODERATE	MAJOR	MINOR	MODERATE

* **NOTE**. This category includes both specific financing through a state health agency and financing through an independent interagency group in state government.

rnultiple documents reporting expenditure patterns. For each state, the level of use of each source type has been categorized as major, moderate, or minor. While the data in Table 1 must be viewed as preliminary and the limitations described previously prohibit specific expenditure reporting, the designation of major, moderate, or minor is well supported by the multiple sources of information and later review of this report by key state personnel in each of the case study states.

Major use implies that the source was seen as essential to the state's financial plan and that it represented a substantial investment of resources. It should be noted that amounts of actual funding varied widely among the states, both because of size of the state and the overall level of financial commitment made by the state toward this program. Therefore, a designation of major support represents a proportionately large expenditure of funds from a given source. A moderate level of use indicates that the source was being employed on a systematic basis in the state, but actual use was limited. Such sources may or may not be seen as potential future sources for funding of services. Minor use denotes that the state was not consistently or systematically using the funding source specifically for Part H services.

It was somewhat surprising that, even in these states which were advanced in their implementation of the law, only one or two funding sources formed the backbone of financing Part H services for infants and toddlers. Only one state was determined to have more than two sources of support that were considered major. It is clear that securing a commitment of significant levels of financing from the different agencies which have control of the funds is a substantial undertaking. Even when the use of these funds for infants and toddlers with

disabilities and their families involves no loss of funding to other traditionally funded programs and agencies, gaining access to the funds is seen as complicated and risky by the agencies involved.

An example may help to illustrate the complexity and political difficulty of full implementation of the financial provisions of the law. In State F, the early intervention program was highly regarded. A very systematic and thorough contracting system was used to channel state and federal resources to local providers. This system encouraged use of a wide variety of financing sources, and, at the same time, allowed for detailed documentation of the sources and amounts of payments for services. However, in this state, Medicaid was used only minimally, despite the fact that it was a potentially quite large source of additional funding.

State-appropriated funds already in place could have been used for the required match without affecting the existing use of Medicaid in the state. But staff from a number of agencies in the state expressed uncertainties about the implications of wide use of Medicaid. They were concerned about the "unintended consequences" of modifying their current system to meet the Medicaid requirements. Previous experience with Medicaid suggested that it is hard to predict the full costs of expanding the Medicaid umbrella. Staff were convinced that the use of Medicaid would, in fact, result in additional costs, such as the large amounts of staff time and effort needed to meet the new regulations. This concern was exacerbated by the poor financial condition of the state at the time of the site visit. This state, then, which began early intervention services long before passage of P.L. 99-457, was still struggling with this potentially large funding source.

FINANCING APPROACHES

The six case study states exhibited a variety of approaches for financing services. Table 2 provides an overview of the different approaches identified as being important in the states at the time of the site visit. Each of those approaches is described briefly.

Unit Rate Financing involves establishment of standard rates of payment for specified services. Whenever insurance is used for payment for services, some version of the unit rate approach is typically involved. Of the case study states, one was using the unit rate approach extensively and another was considering a move toward a unit rate system.

Contracting For Services typically involves a more general approach to purchasing services from a provider. State E was using this approach widely, building on a variety of local agency types to deliver services across the state. Individual providers responded to a request for proposals which detailed the services expected and outlined the controls placed on agencies by the state. Other states in the study used variations of this common approach to providing and funding services.

State Core Financing refers to the use of some substantial source of state funds for a large share of the financing of services, with the possible intent of using those funds to build a broader financial base that includes sources seen as less stable or predictable. State A was using a state appropriation for serving developmentally delayed children as its primary source of financing services. Local agencies were expected to supplement those funds with private insurance reimbursements or other funding where possible. Other states in the

Table 2. States' Approaches to Financing

STATES / APPROACHES	A	B	C	D	E	F
Unit Rate	NO	NO	NO	NO	YES	NO
Contracting Services	YES	NO	YES	YES	YES	YES
State Core Funds	YES	NO	YES	YES	YES	YES
Local Funding Initiatives	SOME	SOME	SOME	YES	NO	YES
Formal Agreements	NO	YES	NO	NO	YES	YES
Informal Agreements	YES	NO	SOME	NO	NO	NO
Local Coordination	SOME	NO	YES	SOME	NO	SOME
State Level Coordination	NO	NO	SOME	NO	SOME	SOME

sample used state appropriations to match Medicaid, with provisions in place to increase use of Medicaid for Part H services.

Local Funding Initiatives were relied upon more heavily in some states than in others. States which have had a history of utilizing private or public agency funds at the local level prior to enactment of P.L. 99-457 tended to continue that pattern and make greater use of local funding initiatives for Part H services. Only States D and E used local resources as a major source of funding, with three other states making moderate use of local funds. Local Education Agency funds, as well as non-government sources such as United Way, are used as funding sources in these states. This study failed to find that increasing the use of local resources was a promising strategy for financing large portions of Part H services in most states.

Formal and Informal Interagency Agreements were beginning to be used more widely. The agencies in State A agreed informally to allocate a major portion of the developmental disability appropriation to serve infants and toddlers with disabilities. This agreement worked well, even though attempts to formalize it failed in the legislature on two occasions prior to the case study visit. Informal agreements played an important role in this state and, to a lesser extent, in other states as well. It is possible that informal agreements may play a less important role in the future as more formally adopted agreements are put into place. In fact, subsequent to the first site visit, State A has a signed interagency agreement which states that no agency is to decrease its funding for Part H services. This has the effect of formalizing the earlier informal commitment of developmental disabilities funds for infants and toddlers. While the informal agreements, as such, may be

less important in the future, the informal contacts and relationships among the mid-level managers will continue to be essential to effective and efficient financing.

Local and State Coordination play an important role in the effective use of various financing arrangements. State C relied quite heavily and effectively on a strong network of coordinating groups at the local level to both design services and identify financing sources for individual children and their families. State F was using its contracting system to encourage provider agencies to become local coordinating systems for financing services.

States are moving into the state level coordination arena more slowly. State C was attempting to build a system to access payment from the various funding sources with a single request from a provider. This request would be processed automatically by passing through a series of screens which would test for applicability of funding from the different sources (e.g., Medicaid, private insurance, Maternal and Child Health). While much work is underway to improve financial coordination at the state level, it is too early to tell whether the normal turf battles which are part of all bureaucracies will permit states to accomplish the desired goals.

The importance of one of the approaches described above is apparent in the fact that all of the states which have relatively advanced financing plans use some Core State Financing. This indicates more than simply that these states regard providing services as important. The existence of that core of financing has further allowed these states to access other sources which require a match or an outlay of resources before payment for services can be made. In some states, for example,

Medicaid match money has been provided to allow the state to draw large amounts of financial assistance for low income families. States C and E are prime examples of states demonstrating this practice, although each has gone about the process quite differently. State E has used its core state funding to build a stable system of funding through local providers. These providers are now established enough to be able to bill private insurers for reimbursement of eligible costs, seek additional local support for their ongoing programs, and expand services to broader geographic regions.

It seems that, in spite of the apparent assumption in the law that existing resources can be tapped to provide the lion's share of the costs, the states in our study which were relatively advanced in their development of a system of services had a core of state funds (approximately 30% to 50% of the total expected costs) to initiate and maintain effective operation of their system.

CONCLUSIONS AND RECOMMENDATIONS

The financing of Part H services as envisioned in P.L. 99-457 is complex, and at best, difficult to achieve. In a sense, the law exhibits recognition that the federal government has been unable or unwilling to coordinate financing of various categorical programs across the Departments of Education and Health and Human Services in order that people with handicaps may be optimally served.

Based on the findings of the preliminary analysis of data from the case studies and on information from other CPSP activities, the following recommendations are made:

1. STATES SHOULD CONCENTRATE FINANCING EFFORTS ON A SMALL NUMBER OF SOURCES.

States which have been successful in moving toward adequate financing systems for services for infants and toddlers with disabilities and their families have focused their efforts on the use of a small number of sources of funds. They have not been distracted by trying to access all of the possible various sources, but instead have identified two or three major sources and concentrated efforts on maximizing use of these.

Medicaid was the most likely federal resource to be tapped as a major funding source. Two states in our study had moved quickly to access Medicaid and a third was making a concerted effort to substantially increase use of that source. Other major federal sources of funding were not as apparent. Chapter 1 was being used effectively by one state, but it was unclear what effect the recent congressional activity related to appropriations for Chapter 1 will have on its use for infants and toddlers with disabilities.

Funding from state sources was effective in several states through both health and education agencies. In only one state was local funding a major component of the total financing picture.

2. STATE GOVERNMENT SOURCES OF FUNDING MUST BE ACCESSED TO DEVELOP AN ADEQUATE FINANCING PLAN FOR PART H.

In the more successful states (five of the six states in the study), the financing plan included some major use of state tax revenues. These successful states realized early that state resources play three critical

roles in any plan to fund services. First, state resources are needed to match federal resources in a number of instances, most notably Medicaid. States which were able to convince government officials and legislators of the benefits of using Medicaid were able to insure the support necessary to facilitate the use of this source to the maximum extent. For example, one state was in the process of revising the Medicaid plan to allow reimbursement for case management. State dollars currently used for that purpose would then be freed to pay for expansion of other services for the Part H population. This was possible only because the various agencies involved had all agreed to work on maximizing the use of Medicaid and there was confidence that the legislature would allow the increased federal funds, drawn down through Medicaid, to be used to expand and improve Part H services.

The second major role for state resources is to "fill in the gaps." Those gaps are significant. There are significant numbers of children and families who do not qualify for financial assistance, even under the OBRA '89 provisions, which both extended coverage of Medicaid to higher income families and broadened the mandated number of services. Other federal sources will not "fill the gap" for these families, either. Similarly, states have generally found that private insurance is not a dependable alternative source of support, even for more affluent families. It was reported, for example, that insurance companies have tended to modify policies in order to contain costs as demand for certain services has increased.

A third reason for needing a substantial pool of state resources is that a critical mass of stable financial support is needed to initiate programs at the local level or enable local programs to expand

sufficiently to meet the demand for more and higher quality services. These local providers, often private non-profit organizations, do not have sufficient capital to risk the establishment of a new type or level of service without some guarantee of financial support.

3. STATES MUST INVEST SUBSTANTIAL RESOURCES IN THE FORM OF STAFF COMMITMENT TO BRING ABOUT A SUCCESSFUL FINANCING PLAN FOR PART H SERVICES.

The process of establishing an approach to financing services under Part H is expensive in terms of the amount of staff time and expertise required. Simply determining the existing expenditure of funds needed to support services to the Part H population has proven most difficult for nearly all states. The fact that these sources of financing each have their own reporting requirements, most of which do not allow for analysis of costs for children with disabilities under three years of age, makes compilation of expenditures exceedingly challenging. Another example of work required of state agencies which involves substantial staff time and expertise is the establishment of rates for services for Medicaid reimbursement. States must be prepared to commit resources in current staff time and often in outside consultant resources to accomplish the tasks required both for compliance with Part H and eventual implementation of a viable financing plan for providing services to infants and toddlers with disabilities and their families.

In the relatively short time states have had to accomplish the task of coordinating the financing of Part H services, much progress has been made. It is clear from this study that there are inherent limits on a

state's ability to meet the full requirements of the law. The most successful states in the case studies have limited their goals and have expended considerable resources, particularly in staff time. Subsequent case study site visits will provide more insight into the likelihood of full implementation of the financing provisions of P.L. 99-457, Part H.

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